Pensioner Poverty under the Labour Government

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In addition to having much-publicised targets for child poverty, the current government has also set itself the equally ambitious goal 'to end pensioner poverty in our country' (Gordon Brown, Labour Party Conference, 30th September 2002). Although it has not said exactly what it means by 'ending' pensioner poverty, nor has it given a time deadline for doing so, it has introduced some historically large increases in state support - especially for those pensioners on the lowest incomes. In this article we begin by outlining some of the measures introduced, and then will discuss some methodological issues involved in poverty measurement. Equipped with these tools, we then proceed to analyse changes in pensioner poverty, with a specific focus upon the experience under the present government.

Since coming to power in 1997, the Labour government has introduced significant and historically large increases in means-tested benefits for pensioners in the form of the Minimum Income Guarantee (MIG). The MIG is a means tested benefit that replaced income support for those aged sixty and above. It supplements the incomes of the poorest people in this age bracket to ensure that they receive a set minimum level of income. The basic value of the MIG (in April 2003) for eligible single people was £102.10 and for couples it was £155.80. These rates correspond to real increases in excess of 30 per cent since 1997. The MIG has been accompanied by smaller real increases in non-means-tested benefits (the basic state pension and introduction of winter fuel payments) and supplemented by the introduction of in-kind support (free TV licenses for those aged 75 and above).

Overall, these reforms were designed to raise pensioner living standards considerably especially amongst the poorest. However, to gain a complete understanding of how these have affected pensioner poverty, it is first necessary to define what is meant by this term, and how one may go about measuring it.

Concern about poverty is often motivated by a concern about living standards. More specifically, the minimum standard of living that we believe individuals should be able to attain. In measuring living standards, the decisions of the empirical economist are often driven by issues of practicality rather than of principle, and for this reason we will be considering household income as the appropriate measure of individual well-being. Clearly, this is an abstraction because, amongst other things, it both ignores financial wealth and entirely neglects the role of non-financial factors, such as health, which are likely to be important determinants of the living standards of individuals.

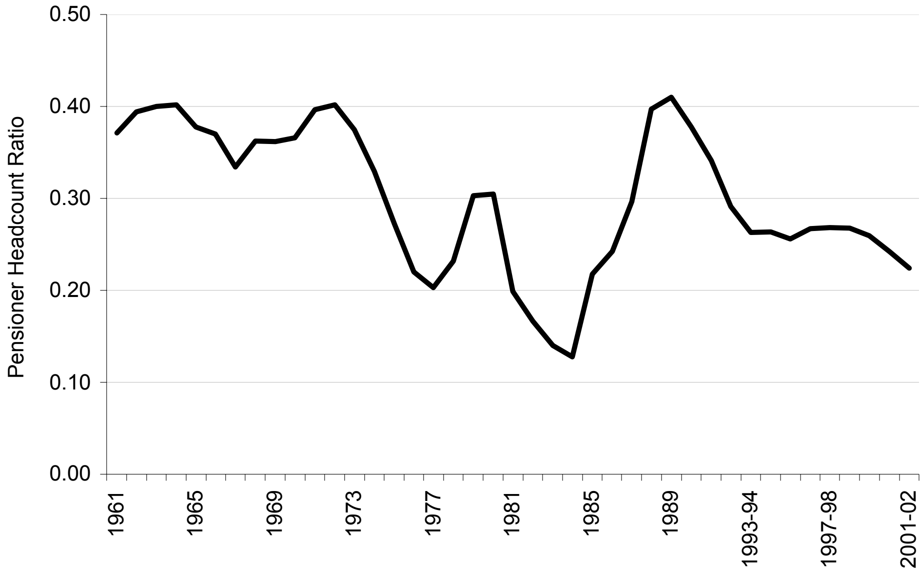
In official government statistics,[1] the government uses a 'headcount ratio' to track poverty. Under such an approach, an individual is defined as living in poverty if their household income, once adjusted for household size and composition, falls below some poverty line. The headcount ratio is then simply defined as the proportion of individuals living in poverty. This measure is not without problems. Perhaps most importantly, it is completely insensitive to the depth of poverty, that is, how far individuals are from the poverty line. This means that the poverty rate is the same regardless of whether individuals are just fractionally below the poverty line or far below it. It would seem uncontroversial to say that poverty in the latter case is worse than in the former, but the headcount ratio treats these two outcomes as the same.

In any case, such a measure only becomes useful once we have a suitably defined poverty line. The government's own publications relate this line in some way to the median population income. A frequently cited measure takes the poverty line as being 60 per cent of median income. This, therefore, is a relative poverty measure, as whether or not individuals are classified as being poor depends not just upon their own income, but also upon that of other individuals. Although this is not explicitly related to need, such a choice of poverty line is typically justified by appealing to poverty as a relative notion of deprivation. However, we will now see that this measure can be particularly uninformative for tracking pensioner poverty.

Tracking the headcount ratio over time we are able to trace the evolution of pensioner poverty. This is shown in Figure 1 below where the before-mentioned relative poverty line is used. There are two main features to be taken from this figure. Firstly, there has been a large reduction in poverty over time. In the early 1960s around 40 per cent of pensioners were in poverty on this measure. This contrasts with today, when little over 20 per cent of pensioners are in poverty. This is a general reflection of pensioners getting better off both in real terms, and relative to the population as a whole. However, perhaps more notable than this is the fact that the series is highly volatile over time. Indeed, over the five-year period from 1984 to 1989, pensioner poverty actually tripled. What could possibly explain such phenomenon?

[1] See Department for Work and Pensions, *Households Below Average Income 1994/5 – 2001/02,* CDS, Leeds, 2003.

Figure 1: Pensioner poverty: 1961 – 2001/02



Source: Author's calculations based on Family Expenditure Survey and Family Resources Survey.

A closer inspection reveals that the pensioner poverty rate is highly pro-cyclical. In other words, pensioner poverty tends to increase in times of high economic growth, and decrease when growth is low. On a measure like this it would appear that the best way of reducing pensioner poverty would be to instigate a severe recession. There are two main reasons why we observe this trend. The first is that pensioner incomes tend to be quite stable over the economic cycle, with pensions often indexed only by prices, if at all. This means that pensioners tend to fall behind non-pensioners in relative terms at times of high earnings growth. The magnitude of these changes is explained by the pensioner income distribution being quite narrowly distributed, so that even small changes in the poverty line can shift many pensioners either side of it.

Bearing these facts in mind we can attempt a more detailed inspection of the experience under the present government. From Figure 1 we saw that pensioner poverty has been remarkably stable throughout the 1990s. The fact that much of this period has been one of consistently high economic growth, with median income increasing by an average of around 3 per cent per year in real terms under Labour, which others things equal we would expect to increase poverty, means that just standing still is itself an achievement.

But given the large recent increases in means tested benefits, we may have expected pensioner poverty to fall further than it actually has. One possible explanation for this is the non-take-up of state benefits. Indeed, official statistics suggest that between 22 per cent and 36 per cent of pensioners who are entitled to MIG do not claim it. A similar proportion of pensioners do not claim council tax benefit and about one in ten do not claim their housing benefit entitlement. Non-take-up may be due to hassle costs of claiming, information costs, and perhaps more worrying for the Government, the stigma that may be attached to benefit receipt.

Estimates by the Institute for Fiscal Studies suggest that full take-up of these benefits, would reduce measured pensioner poverty by just 1.7 per cent. Such a small impact on the headcount ratio should *not* however, be interpreted as take-up being unimportant, but rather it illustrates the inadequacies of the headcount ratio as a measure of poverty. This is because non-take-up can have very profound implications for the depth of poverty. Although it is true that it is typically those who have least to gain who are most unlikely to claim benefits, there does exist a group of very poor pensioners who are poor precisely because they do not claim their entitlement. And while the government has said little about its concern with the depth of poverty amongst pensioners, to achieve the ‘end [of] pensioner poverty’ implicitly assumes a concern with those whose incomes fall significantly short of the poverty line.

The most important reason why relative pensioner poverty, as measured by the headcount ratio, has not fallen further than it actually has is simply due to the choice of poverty line that has been considered here. By adopting a relative notion of poverty, we find ourselves chasing a continually moving target. Median income growth between 2000 and 2002 in particular has been remarkably strong, increasing by almost 10 per cent in real terms, making any reduction in pensioner poverty actually quite impressive. The lesson to be taken from this is that we really need to understand our measures before we can sensibly attempt to assess them. If we had alternatively chosen an absolute poverty line, which increases just with prices rather than incomes, then a much more notable reduction in pensioner poverty would have been achieved since 1997.